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The Legislative Assembly of
British Columbia

REVIEW OF AUDITOR GENERAL REPORTS

Select Standing Committee on
Public Accounts
REPORT

February 2003

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February 4, 2003

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Report* of the Select Standing Committee on Public Accounts for the Third Session of the Thirty-Seventh Parliament.

This *Report* covers the review of four major reports and eight follow-up reports of the Auditor General of British Columbia referred to the Committee since January 2002. However, it does not include those reports of the Auditor General that were deposited with the Speaker of the Legislative Assembly in December 2002 and January 2003. The Committee looks forward to being reconstituted, at the earliest opportunity, in the fourth session of the 37th Parliament in order to complete its review of the outstanding reports published during the current legislative session.

Respectfully submitted on behalf of the Committee.

Jenny Wai. Kwan

Ms. Jenny Kwan, MLA
Chair

103-03286/

TABLE OF CONTENTS

Composition of the Committee i

Terms of Reference ii

The Work of the Committee iii

Introduction 1

Auditor General Report No. 5, 2001/2002 ***Management of the Information Technology Portfolio in the Ministry of Attorney General*** 3

Auditor General Report No. 6, 2001/2002 ***Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System*** 7

Auditor General Report No. 1, 2002/2003 ***Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service*** 13

Auditor General Report No. 4, 2002/2003 ***Monitoring the Government's Finances*** 17

References 22

COMPOSITION OF THE COMMITTEE

MEMBERS

Jenny Kwan, MLA	Chair	Vancouver-Mount Pleasant
Brian Kerr, MLA	Deputy Chair	Malahat-Juan de Fuca
Harry Bloy, MLA		Burquitlam
Ida Chong, MLA		Oak Bay-Gordon Head
Annie Hamilton, MLA		Esquimalt-Metchosin
Blair Lekstrom, MLA		Peace River South
Joy MacPhail, MLA		Vancouver-Hastings
Lorne Mayencourt, MLA		Vancouver-Burrard
Sheila Orr, MLA		Victoria-Hillside
Barry Penner, MLA		Chilliwack-Kent
Ralph Sultan, MLA		West Vancouver-Capilano

CLERK TO THE COMMITTEE

Craig James, Clerk Assistant and Clerk of Committees

COMMITTEE RESEARCHER

Josie Schofield, Research Analyst

TERMS OF REFERENCE

On May 30, 2002, the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the third session of the thirty-seventh parliament were deemed referred to the Select Standing Committee on Public Accounts, and in addition that the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:

- Monitoring the Government's Finances (February 2002)
- Management of the Information Technology Portfolio in the Ministry of Attorney General (February 2002)
- Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System (April 2002)
- Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service (April 2002)

In addition to the powers previously conferred upon the Select Standing Committee on Public Accounts, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee, and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be, to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be, to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

THE WORK OF THE COMMITTEE

The all-party Select Standing Committee on Public Accounts held five public meetings during the third session of the 37th Parliament. Three planning sessions also took place.

The Public Accounts Committee held its first meeting on July 18, 2002. Following the elections of the Chair and Deputy Chair, there was a brief discussion of the workplan of the Auditor General and the meeting schedule for the Committee.

The major focus of the work of the Committee was the review of the reports tabled by the Auditor General, which was conducted between July 18 and October 1, 2002. A summary of the review process is provided in the Committee's report to the House.

The Chair, along with the committee research analyst, attended the 23rd Annual Conference of the Canadian Council of Public Accounts Committees in St. John's, Newfoundland and Labrador in late August. The Chair provided a brief report on the proceedings at the committee meeting on October 1, 2002.

On September 20, 2002, members of the Public Accounts Committee from the State Legislative Assembly of Sarawak, Malaysia, visited Victoria as part of their Canadian study tour. The 11-person delegation met with the Clerk Assistant and Clerk of Committees, the Auditor General, the Comptroller General, and the Director of Corporate Projects, Office of the Premier.

The Committee has completed its review of the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the last 12 months, except for the following new reports:

- *Managing Contaminated Sites on Provincial Lands* (December 2002)
- *Review of Expenses Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games* (January 2003)
- *Building Better Reports: Our Review of the 2001/02 Reports of Government* (January 2003)
- *Follow-up of Performance Reports* (January 2003)

The Committee looks forward to being reconstituted, at the earliest opportunity, in the fourth session of the 37th Parliament in order to complete its review of the outstanding reports published during the current legislative session.

Transcripts of meetings and the reports of the Public Accounts Committee are available on the Legislative Assembly's web site at: www.leg.gov.bc.ca/cmt/

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OVERVIEW OF THE REPORT

This report draws attention to the main concerns raised by the 11 members of the Public Accounts Committee at the public meetings. Where appropriate, the Committee has commented on unresolved issues.

Chapter 2 addresses issues raised in relation to the Auditor General's report on the management of the information technology portfolio in the Ministry of Attorney General.

Chapter 3 summarizes the discussion of the Auditor General's report on information use by the former Ministry of Health in resource allocation decisions for the regional health care system.

Chapter 4 focuses on issues raised in relation to the Auditor General's report on the work environment in the BC public service.

Chapter 5 summarizes the discussion related to the Auditor General's latest report on monitoring the government's finances.

Copies of the reports produced by the Office of the Auditor General are available on its web site at: www.bcauditor.com.

2

AUDITOR GENERAL REPORT NO. 5, 2001/2002

Management of the Information Technology Portfolio in the Ministry of Attorney General

INTRODUCTION

The Public Accounts Committee met on July 18, 2002 to review the Auditor General's report on the management of the information technology portfolio in the Ministry of Attorney General. It heard presentations by the Office of the Auditor General, the Ministry of Attorney General and the Ministry of Management Services.

SUMMARY OF AUDIT

Background

The Auditor General's report points out that the use of systems such as computers and telecommunications to store, retrieve and send information has become essential for modern government. As a result, information technology (IT) management has become critical to how well and how cost effectively public sector agencies in British Columbia deliver the core services citizens depend on. Yet cost-effective management of IT portfolios is a difficult task for both public and private sector managers. Many IT projects are never completed on time or on budget and may end up unable to accomplish the objectives they were intended to meet.

Audit Scope

The audit team selected the Ministry of Attorney General as the case study for its review of IT management practices in government. Its work focused on the ministry's management practices related to 13 major IT projects during the 2000/01 fiscal year. Internal IT projects that appeared to be critical to the ministry's core business functions were chosen over government-wide information systems. The audit was conducted prior to the reorganization of the ministry's functions on June 5, 2001.

Audit Purpose and Findings

The Committee learned that the formal purpose of the audit was to assess how well the Ministry of Attorney General managed its portfolio of information systems — including how well its managers evaluated the cost-effectiveness of these systems and ensured that IT projects were aligned with its needs. The ministry depends on IT systems to deliver essential justice services, including the operation of courts and correctional facilities, and spends a significant portion of its budget on its

portfolio. In 2001/02, $23 million was allocated to operate information systems (and $12 million for capital IT projects) out of the total ministry operations budget of $1 billion.

The audit team leader informed the Committee that the best practices template of portfolio management was used to determine how well the Ministry of Attorney General was managing its IT projects. As this integrated approach treats information systems as a set of investments to be managed as a single portfolio, the success of an IT project is measured by the benefit delivered by the complete portfolio against the total risk of that expenditure, not by how well or poorly an individual project is managed. The witness then outlined the three key elements of successful portfolio management in any organization: clear governance and accountability; informed, well-thought-out proposals for changes to the portfolio; and well-managed delivery of new systems being added to the portfolio.

The audit team concluded that the Ministry of Attorney General has an appropriate organizational structure — the administration and technology committee — for exercising senior management control over its IT portfolio. However, the ministry needed to improve its methods for assessing the value (costs and benefits) of proposed changes to its portfolio and also to improve the way it manages risk during project delivery. In addition, the audit findings suggest that the ministry could benefit from analyzing its "portfolio management maturity" — i.e. the idea that organizational improvement comes about through advances in the overall capacity of the organization over time.

GOVERNMENT RESPONSE

Ministry of Attorney General

A ministry representative explained to the Committee that the audit was completed prior to the restructuring of the Ministry of Attorney General in June 2001, when some functions were transferred to a separate Ministry of Public Safety and Solicitor General. As the administration and technology committee now manages the IT portfolio for both ministries, its response represented the views of the two ministries.

The witness stated that the recommendations contained in the Auditor General's report provide a useful guide to strengthen IT management in the two ministries. He then reviewed the actions taken by the administration and technology committee in regard to the seven recommendations.

Ministry of Management Services

Since the Auditor General's recommendations are applicable to government as a whole, the Committee also heard a presentation from the senior official in charge of common IT services, such as data centres, networks and workstation support. He informed the Committee that the inter-ministry committee of systems directors and senior managers has responded favourably to the integrated portfolio management approach used by the audit team.

The witness also stated that in the fall of 2002, approximately 220 IT professionals would be transferring to his branch within the Ministry of Management Services. With respect to IT functions, the major changes would be the transfer of responsibility for common services, such as workstation and help-desk support. Individual ministries would retain the IT staff that manage and operate the information systems that are unique to each ministry's core business requirements.

MEMBERS' CONCERNS

After hearing from the witnesses, committee members raised the following issues:

- the evaluation methods used by the Ministry of Attorney General;

- the management of risk in IT projects; and
- the inclusion of privacy safeguards for protection of personal information.

Individual committee members also inquired about the current status of the aboriginal law research system in the IT portfolio of the Ministry of Attorney General, and ministry use of the maturity model for portfolio management developed by the U.S. General Accounting Office.

Evaluation Methods

Some committee members were concerned about the implications of the audit team's finding that the ministry lacked sound evaluation methods — in particular, its conclusion that the "weaknesses in delineating the costs and benefits [of IT projects], and in making decisions based on that information are…technical and cultural." (Report, p. 34)

In response, the Ministry of Management Services official explained that his branch has no oversight responsibilities in the IT area. It provides common IT services within a policy framework developed by the chief information officer in his ministry. Nonetheless, from his perspective, there is no evidence that there is a fundamental, systemic problem regarding IT management in the Ministry of Attorney General. He was confident that the implementation of the Auditor General's recommendations would lead to improvements.

When replying to another question regarding the extent of cost savings resulting from sharing common IT services, the witness representing Management Services stated that the three pilot projects the ministries have worked on collaboratively have in fact demonstrated cost savings.

Risk Management

Other committee members asked the witnesses representing the Ministry of Attorney General to clarify the actions their ministry has taken in regard to recommendation No. 5 relating to risk management of IT projects. They learned that the ministry is implementing a risk profile internally and is working with the administration and technology committee to define a consistent approach for managing risk in IT projects on a cross-government basis.

The witnesses were also asked about the time frame the Ministry of Attorney General uses for evaluating the net benefits of investing in a new information system, given the rapid changes in technology. They informed the Committee that one of the criteria used to assess the risk of a project includes the length of time to develop a system, and five years is the normal life expectancy of a project.

Information Privacy

Committee members sought clarification concerning whether the report's recommendation No. 7 relating to the need for an inventory system included safeguards for the protection of personal information. The Ministry of Management Services official assured the Committee that privacy impact statements are required as a matter of policy for the development of common IT services.

A related question focused on the security of sensitive information stored in the Justice Information System of the Ministry of Attorney General. The Committee was informed that the very stringent controls on the database are constantly under review and that to date, there have been no instances of unauthorized entry to this system. There are two separate initiatives underway to further enhance the security of sensitive information. In addition, the ministry is working with its counterparts in the other provinces and in Ottawa on an integrated justice initiative that recognizes the need to raise the bar regarding the security of information systems.

COMMITTEE RECOMMENDATION

The Committee endorses the seven recommendations contained in the Auditor General's 5th Report for 2001/2002, *Management of the Information Technology Portfolio in the Ministry of Attorney General*, and recommends the same to the Legislative Assembly.

3

AUDITOR GENERAL REPORT NO. 6, 2001/2002

Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System

INTRODUCTION

The Public Accounts Committee met on July 24, 2002 to review the Auditor General's report on information use by the former Ministry of Health in resource allocation decisions for the regional health care system. It heard presentations by the Office of the Auditor General and by senior officials representing the Ministry of Health Services and the Ministry of Health Planning.

SUMMARY OF AUDIT

Background

The Auditor General's report states that information management has not been a priority for health authorities in British Columbia, or in other jurisdictions, because of other demands on the health care system. However, with 62 percent of the province's $9.5 billion health budget allocated to the regional health care system in 2001/02, and with continuing pressure to spend more money, good cost and performance information is critical knowledge for the Health ministry to have when making resource allocation decisions for the regional health care system.

Audit Scope

The audit team examined the information used by the Ministry of Health to allocate resources to the regional health care system in the fiscal years 1999/00 to 2000/01, and to prepare its budget for 2001/02. This information included financial and statistical data, direction-setting documents, issue papers and detailed working papers. The audit was conducted prior to the reorganization of the ministry's functions on June 5, 2001, when the two new ministries of Health Services and Health Planning were created.

Audit Purpose and Findings

The Committee learned that the purpose of the audit was to examine whether the Health ministry was using appropriate information to support its resource allocation decisions; whether it was establishing a clear direction for the regional health care system, including principles, priorities and accountabilities; and whether the ministry was assessing and reporting on the overall performance of the regional health care system and providing the appropriate information to health authorities.

The audit team concluded that during the period under review, the Ministry of Health was allocating resources to the regional health care system, without using essential program cost and performance information. Instead, the ministry used mainly the previous year's budget as the basis for allocating resources. As a result, most allocation decisions were not based on the types of information necessary for implementing and evaluating the strategic directions set for the regional health care system. In addition, the information contained in the annual reports was not clearly linked to the ministry's stated objectives.

To make the funding system understandable and transparent, the Auditor General recommended improvements in the following four areas: direction and expectations, information use, resource allocation, and accountability reporting. His recommendations are designed to assist the ministry to decide if it is spending too much, too little or not enough on the regional health care system.

GOVERNMENT RESPONSE

The Deputy Minister of Health Services and Health Planning told the Committee that two separate ministries now perform the functions of the former ministry. This reorganization is designed to tackle some of the structural challenges identified in the Auditor General's report, to improve planning for the health care system and to facilitate strategic change.

The witness stated that ministry staff has done "an enormous amount of work" on the important issues identified in the Auditor General's report. Government recognizes the need to do a much better job of linking fiscal resources allocated for health care to service delivery outcomes and, where possible, measuring the impact that spending on health services has on positive health outcomes. However, one major challenge facing the health sector is to find "the best markers for success or failure" and to align them with the strategic direction government wants to pursue.

The witness also pointed out that there have been significant strategic shifts and organizational changes for resource allocation since the conclusion of the audit. As a result of the core services review, the Ministry of Health Services has committed to making a number of major strategic shifts and changes in core business practices. Fundamental to these core strategies is "the need to move to a much improved financial accountability and a better information base between what we're doing and what the outcomes of that are."

The Deputy Minister also reported on the restructuring of the health care delivery system in the province, which was initiated in December 2001. Instead of 52 separate authorities, the new structure consists of five regional health authorities and one provincial health services authority. A leadership council has also been set up to coordinate policy. It comprises all the CEOs of the six health authorities and senior ministry officials, who discuss "many critical policy financial reporting issues" on a regular basis. Senior ministry staff responsible for financial accountability, health care planning, information technology planning, and human resources also meet with their counterparts in the health authorities on a regular basis to share information about issues and policy directions. Other venues for direct, high-level interaction are the quarterly meetings of the chairs of the six health authority boards, and the ministers' forum.

To address the audit's first finding that there was no cohesive framework or clear, measurable performance expectations, the Deputy Minister stated that the Ministry of Health Services now has signed performance agreements with the regional health authorities. These agreements outline the government's service priorities for the health authorities and its expectations relating to the health authority service plans — including finding savings in various areas of infrastructure support, via sharing services, in order to address the fiscal challenges

To tackle the information gap, significant internal restructuring has taken place in two major divisions to ensure that the Ministry of Health Services has the capacity to gather and analyze the appropriate information, and that there is clear financial accountability for the implementation of policy at the health authority level and for proper feedback loops.

To address the lack of transparency in the allocation of funding, the Deputy Minister reported that the ministries are now using the population needs-based funding model for services provided by all regional health authorities, such as acute care and continuing care programs. This model takes into account population size, age distribution and gender, socioeconomic status, interregional flows and cost of care delivery. The model is designed to demonstrate that resource allocation decisions for the regional health care system are made equitably and fairly; however, it does not provide a formula for deciding how much money is actually needed to deliver the health services. The health authority budget for 2002/03 addresses the problem of inequities so that "we have pretty much levelled the playing field in acute and continuing care." Furthermore, the funding allocation letter for the regional health authorities went out within three days of the tabling of the budget on February 19, 2002.

Regarding steps taken to improve compliance with reporting requirements, the ADM for corporate services and financial accountability informed the Committee that the first comprehensive report on health authority performance is now available on the ministry web site. The report shows what is actually happening with respect to the utilization of health services in each of the major program areas — the hospital sector, the home and community care sector, mental health, public and preventive health, the Medical Services Plan and Pharmacare. In addition, the corporate services and financial accountability division is developing "a dashboard project" that will identify four or five major issues that need to be monitored on an ongoing basis, including financial information, by senior managers in the health sector.

To improve the overall monitoring of health authorities, the Deputy Minister stated that the Health Services ministry's approach has focused on quality improvement. This involves building a good constructive working relationship with the regional health authorities and at the same time being very clear on the boundaries of accountability.

MEMBERS' CONCERNS

After hearing from the witnesses, the committee members raised the following concerns:

- the former Health ministry's reaction to some recommendations of the Royal Commission on Health Care and Costs (Seaton report);
- the suitability of the ministry's population needs-based funding model;
- the lack of information-sharing between the ministry and the regional health authorities;
- the quality of the ministry's performance indicators for health authorities; and
- the effectiveness of the new structure for monitoring the regional health care system

Individual committee members also inquired about the feedback process regarding the Auditor General's draft report; the follow-up process regarding the Auditor General's recommendations, particularly the time frame for reporting back; the proposed health data warehouse; the timing of health authority funding allocation letters; the trend line for health care spending; and the performance expectations for the Medical Services Plan and Pharmacare.

Health ministry reaction to Seaton report

Some committee members were concerned to learn from the Auditor General's report about the delay in implementing some of the recommendations in the 1991 report of the Royal Commission on Health Care and Costs, which was chaired by Peter Seaton. The relevant section of the Auditor General's report states:

> *"In the 10 years since the commission released its report, the government has introduced numerous changes to the health system. However, a number of the problems and issues identified by the commission still exist — notably, lack of openness, lack of outcome measurement, funding issues, and barriers to integration, even though health care spending continues to increase."* (Report, p. 15)

Committee members also expressed concern about the audit's overall conclusions that in the recent past, the ministry was allocating sizeable resources across the health care system "without the benefit of essential cost and performance information," and that "most resource allocation decisions are not based on the kind of information necessary to fully implement and evaluate the strategic directions the ministry has set for the health care system" (Report, p. 7).

Population needs-based funding model

The audit team leader was asked for her opinion on the appropriateness of the population needs-based funding model, which was being developed by the former Health ministry at the time of the audit. She informed the Committee that the Ministry of Health Services has now introduced the new model for allocating available funds to acute care and continuing care, programs that are provided by all the regional health authorities. While the audit team did not assess this model, it regarded its development as "a step in the right direction" since it would make resource allocation more understandable and transparent. The team, though, had suggested that in the current fiscal circumstances, the ministry should reconsider its plan for a phased introduction of the model to reduce the impact on those regions that would face a decrease in funding.

The Deputy Minister then informed the Committee that the funding model would be applied next to mental health services and then to public and population health. In addition, the funding formula could be modified to determine the basis on which to allocate funding for ambulance services or the Medical Services Plan or even Pharmacare at the health authority level.

Information-sharing

Another concern of committee members related to the audit team's finding that the financial and statistical data collected by the ministry to support resource allocation decisions was not collated, analyzed and then shared with the health authorities, and that the health authorities could not directly access ministry data sources to generate their own reports. (Report, p. 37) In response, a member of the audit team explained that he could not comment on whether there have been changes in the flow of information after the audit was completed but that in future audits, information-sharing would be looked at as an element of accountability relationships.

Health authority performance indicators

Some committee members asked the audit team about the list of 34 health authority performance indicators in Appendix C of the Auditor General's report, which were developed by the former Health ministry in March 2001. They wondered whether it was "a catch-up list," or if B.C. was leading other jurisdictions in terms of performance measures for the health sector. They were informed that the U.K. measures are more comprehensive than the B.C. indicators, but that more

conceptual work needs to be done to develop a set of definitive performance measures that could be used for any health care system.

In view of the dramatic increase in health care spending in B.C. since 1998, the Committee was concerned that only one of the ministry's 34 indicators, referring to WCB claims, had any reference to costs. When asked to comment on the virtual lack of any reference to financial performance measures, the Auditor General observed that in supported the report's conclusion that the government was making its funding decisions based on historical spending practices rather than on sound cost and performance information. The Committee also learned that the Office of the Auditor General would be examining the 34 indicators "through the lens of a good accountability framework," which deals with all aspects of the health sector's performance, to see whether these indicators survive as valid measures.

One committee member asked a follow-up question related to the current set of 24 performance indicators in the Ministry of Health Services service plan — in particular, whether it would be obvious to a layperson why indicator X, say, is a good one to use. The Deputy Minister explained that the current version on the ministry web site does not provide any rationale for the choice of any indicator, other than how an indicator relates to the goals and objectives outlined in the ministry service plans. However, in the future the service plan, and perhaps even the annual report, may provide a more cogent discussion of why the indicators were chosen and what they actually mean in terms of measuring the end-point of stated objectives.

To conclude the discussion on this topic, the Chair suggested that the Deputy Minister provide follow-up information on the developmental work on performance indicators undertaken in B.C. and other jurisdictions. In particular, updates on progress made in collecting the appropriate data sources would be appreciated.

New monitoring structure

Some committee members also voiced concern about the "very bold" new structure for monitoring health authority performance and spending at the regional level, perceiving it to be too process-oriented. Rather than strengthening the accountability framework, they thought there was a risk that the various opportunities created for high-level direct interaction between ministry officials and the health authorities would simply generate a lot of paper.

In response, the Deputy Minister explained that the new action-oriented structure is designed to clarify for the different stakeholders in health care what the government's program and spending priorities are and how services can be delivered within the current fiscal constraints. She indicated that these priorities are captured in the 24 indicators contained in the report on health authority performance on the ministry's web site.

Other committee members raised the issue of the lack of access to health information. One MLA stated that he has encountered problems in obtaining information on the actual dollar costs for similar surgical procedures (e.g. hip or knee replacement surgery) in different hospitals within the lower mainland. He inquired whether the province or the regional health authorities would provide this kind of quantitative data in the future, like the U.S. does, rather than relying on anecdotal information to make resource allocation decisions. He learned that the Fraser health authority has developed a fairly sophisticated case-costing model, and that Health Services' corporate services and financial accountability division plans to do a pilot project in the fall.

Another MLA recounted his unsuccessful attempt to obtain information on the rationale for the 10 percent reduction in funding for the North Shore/Garibaldi area of the Vancouver coast health authority, where there was a 7 percent increase in the overall health care budget for 2002/03. The

Deputy Minister explained that this particular health authority faces three challenges: 1) the authority will only receive an increment this fiscal year and will have to manage its budget for the next two years with no new funding; 2) the amount allocated this year to the authority was lower than the provincial average of 7.6 percent since it had received a disproportionate allocation of funds in the past; and 3) the authority has an operating deficit to eliminate in order to balance its budget by 2006/07.

A follow-up question related to the audit team's finding that improvements were needed in the ministry's monitoring of the performance of health authorities. The Deputy Minister reiterated that the establishment of the performance management and improvement division in the Health Services ministry is designed to clarify the lines of accountability for managing the performance of the health system.

COMMITTEE RECOMMENDATION

The Committee endorses the 16 recommendations related to four subject areas contained in the Auditor General's 6th Report for 2001/02, *Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System*, and recommends the same to the Legislative Assembly.

AUDITOR GENERAL REPORT NO. 1, 2002/2003

Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service

INTRODUCTION

The Public Accounts Committee met on July 29, 2002 to review the Auditor General's report on building a strong work environment in British Columbia's public service. It heard presentations by the Office of the Auditor General and the Public Service Employee Relations Commission, the government's central human resource agency based in the Ministry of Management Services.

SUMMARY OF REPORT

Background

The Auditor General's report follows up on a previous audit conducted in 2000 on the role of training and development in the B.C. public service, which found that the work environment was impeding the performance of the public service. Its major premise is that building a strong, healthy work environment in the public service is essential for achieving not only better service but also customer satisfaction. Citing existing research, the report indicates that British Columbians expect government services to be delivered effectively and efficiently by competent and courteous staff.

Audit Scope

The audit used the findings of a government-wide opinion survey sent to over 6,000 ministry employees in January 2001. The survey had a 74 percent response rate.

The project team was assisted by Statistics Canada and Hewitt Associates, and engaged the services of three expert advisers (Mary Gandhi, Dr. Graham Lowe, Fred Price). As part of the analysis, the B.C. survey response was compared with other employee satisfaction surveys conducted by Hewitt Associates, the federal public service and the Public Service Employee Relation Commission.

Audit Purpose and Findings

The purpose of the audit was to assess the work environment in the BC public service by looking at four key factors that affect the ability of government to deliver quality services to British Columbians: a citizen-centred culture, engaged employees, strong leaders and performance management (monitoring and reporting on service quality and work environment).

The audit team concluded that the culturally work environment in the public service (causing the delivery of public service and the achievement of government's objectives at risk). It also concluded that strong executive leadership is needed in order to fully engage government employees in their work and to create a citizen-centred organizational culture.

To help ensure that British Columbians receive public service, the Auditor General's report recommended that the provincial government develop and implement a strategy for managing human resources, as well as a comprehensive transition plan for managing the changes resulting from recent budget and staff reductions. The report also suggested improvements in monitoring and reporting on service quality and the work environment.

[illegible]

The head of the Public Service Employee Relations Commission (PSERC) informed the Committee that the government was aware of the issues identified in the Auditor General's report. The Commission accepts the report's conclusions and will, on the basis of the report's empirical evidence, for the become there is a very competitive labour market in Canada for qualified knowledge-based workers.

The actions that outlined the improvements the government is committed to making, as a result of the core review process. The public service renewal initiative seeks to develop a set of strategies to ensure that British Columbia's professional public service capable of meeting the current and future needs of British Columbians. Regarding management of human resources, the renewal strategy involves changing the basic way in which most of the human resource functions are carried out — ranging from changes in the organizational culture to changes in specific human resource policies and practices, with a heavy emphasis on strong executive leadership. A learning point for this strategy well-ministry has been involved in a process to develop a vision of the public service and common values. The vision incorporates three primary criteria: quality service to customers; a learning organization that focuses on outcomes; and engaged employees.

Rebuilding the human resource capacity of the public service is another undertaking supported by the government. Until recently, the Commissioner of PSERC had sole accountability for human resource management. He is now working with the deputy ministers committee on shared services to set the responsibility for the corporate HR strategy across the entire public service with individual Deputy Ministers and managers accountable for their own ministries and units. In addition, the ministries have committed to working collaboratively on developing a joint performance management system to be called the corporate human resource plan.

The Commissioner also described the steps taken to handle the downsizing of government. He explained that the workforce adjustment strategy is designed to manage the personnel changes during the transition period. This strategy included the early retirement incentive program and a voluntary severance program. At the take up is the two voluntary programs was in high and 65 public servants had in fact been involuntarily laid off by July 1993.

[illegible]

After hearing from the witnesses, the Committee considered the following issues:

- the issue of the main principle in the public service human resource strategy
- the impact of government restructuring on staff morale, and
- the desirability of conducting annual follow-up surveys to monitor the public service work environment.

[illegible] committee members who registered blocs to serve [illegible] [illegible] [illegible]

and paying the cost of a follow-up survey, with the Office of the Auditor General providing advice and assistance.

Prompted by the Committee, the Auditor General subsequently expressed the view that over time, the macro-level type of survey should be done frequently. He noted that Hewitt Associates conducts the same survey annually to assess the quality of the work environment in the top 50 private companies in Canada. He also suggested that technological advancements might make it possible to answer surveys in an electronic way that is private, secure and rigorous, thus facilitating more frequent surveys to be conducted.

The Committee also asked the Commissioner for his opinion on the time frame question. He responded by saying that the earliest he would advocate doing the kind of "broad-brush" survey undertaken by the Auditor General would be three years from now. He explained that when dealing with an organization so large, so diverse and so dispersed as the public service, macro-level changes could not realistically be implemented in a shorter time frame. In the meantime, he would recommend using some "surgical instruments" to determine whether there is an effective return on the leadership initiative.

COMMITTEE RECOMMENDATION

The Committee endorses the four recommendations contained in the Auditor General's 1st Report for 2002/03, *Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Services*, and recommends the same to the Legislative Assembly.

5

AUDITOR GENERAL REPORT NO. 4, 2002/2003

Monitoring the Government's Finances

INTRODUCTION

The Public Accounts Committee met on October 1, 2002 to review the Auditor General's latest report on monitoring the government's finances, which was released in September 2002. It heard presentations by the Office of the Auditor General and the Ministry of Finance.

SUMMARY OF REVIEW

Background

The Auditor General began the presentation by commenting that the report released in September 2002 contains the most current information on the state of the province's finances. He also pointed out that previous reports of this type usually included a review of trends in financial statement items, a description of several indicators of financial condition and the provision of comparative data across jurisdictions. However, the latest report does not contain a complete update on other provinces' accounting policies and best practices, because it was released earlier than its predecessors. At the time of its release, in September 2002, only British Columbia and two other provinces had published their audited summary financial statements.

Review Scope

The review of the audited financial statements of government presents trends in key financial and economic indicators for the six-year period ending March 31, 2002.

Review Purpose and Findings

The Committee was informed that the purpose of the report was to monitor trends in key financial statement items and indicators of financial condition, to compare BC trends to other jurisdictions and to provide advice on strengthening accountability practices. The project team used a financial information framework, set out in Exhibits 1 and 2 of the report, to monitor the government's finances based on the last six years of audited financial information.

As part of its review of financial trends, the project team tracked the rate of change in key components of government revenue over the last six years, compared to the growth in the provincial economy as measured by the gross domestic product (Exhibit 5, page 18). Government expense

trends were also tracked for the same time period, comparing changes in per capita expense to the changes in the per-capita consumer price index (Exhibit 8, page 22).

Concerning the annual surplus/deficit trends for the last six years (Exhibit 9, page 23), the project team leader pointed out that BC's 2002 deficit figure of $1 billion included two unusual items: revenue of $1.5 billion from the settlement of pension plans; and government restructuring expenses of $500 million. He observed that without these adjustments, the deficit for 2002 would have been $2 billion.

The report also presents the six-year trend for each of the seven indicators of government financial condition recommended by the Canadian Institute of Chartered Accountants (CICA). These indicators are grouped into three general concepts related to a government's sustainability, its flexibility and its vulnerability.

Part 2 of the report compares the financial performance of British Columbia with other Canadian jurisdictions, using three measures — GDP per capita, net liabilities to GDP, and credit rating. The findings shown in Exhibit 27 and Appendix C of the report indicate that net liabilities in B.C. are the second lowest, when compared to Alberta, Ontario, Quebec and Canada. The witness pointed out that this conclusion is consistent with that expressed in the government's own reports and by credit rating agencies.

The Auditor General concluded the presentation with a summary of the report's three recommendations related to the timely implementation of generally accepted accounting principles, and the incorporation of the report's financial information framework and the CICA indicators of financial condition into the government's financial statements.

GOVERNMENT RESPONSE

The Deputy Minister of Finance stated that the Auditor General's report is helpful to the ongoing process of improving accountability and reporting in government. He commented that British Columbia is already a leader in financial disclosure, being second this year, only behind Alberta, in terms of publishing the public accounts in a timely fashion.

Besides timeliness, the province is also a leader in completeness, by disclosing the financial impacts of schools, universities, colleges and hospitals — the SUCH sector — in the public accounts. Its record regarding comparability and disclosure is also noteworthy. The government's commitment to move to full implementation of generally accepted accounting principles (GAAP) by 2004/05, and to have fixed dates for budget day, are trend-setting too, as no other province has done that yet.

Regarding the timing for the implementation of the GAAP, the Deputy Minister stated that the government is working towards the legislated target of April 1, 2004, and waiting for the report from the independent accounting policy advisory committee on what should be inside and outside the government entity. The Public Sector Accounting Board (PSAB) is reviewing the criteria for the government reporting entity, and associated accounting, and developing new criteria for inclusion in the government reporting entity.

On the issue of financial statement disclosure analysis, the witness noted that the task of presenting clear and understandable information for a diverse audience is a work in progress not only for the Auditor General but also for Finance ministry staff. He stressed that the issue does not simply relate to public accounts but that it's also really about budgets. Therefore there is a need to focus on the various elements of the province's fiscal accountability framework and to have a good selection of indicators, including the seven used in the Auditor General's report.

MEMBERS' CONCERNS

After hearing from the witnesses, committee members raised the following issues:

- the adequacy of the report's detailed financial information framework;
- the applicability of the CICA financial indicators;
- the suitability of the sustainability indicators; and
- the status of the GAAP implementation project.

Individual committee members also inquired about the scope of the financial information framework (Exhibit 2); the definition of the "Other" category in the "Change in Revenue" chart (Exhibit 5); the increased spending by BC Hydro in the "Enterprise" category (Exhibit 8); the trends in financial, revenue-generating and infrastructure assets of the government (Exhibit 10); the trend in government's net liabilities (Exhibit 14); the financial reporting procedures for local governments and non-profit agencies; the location of the government's debt-per-capita indicator; the vulnerability indicators (Exhibits 21-23); the inter-jurisdictional indicators (Exhibit 27 and Appendix C); and the reporting procedures for the six health authorities.

Detailed Financial Information Framework

Some committee members expressed doubts about the adequacy of the detailed financial information framework used in the report to monitor the government's finances, on the grounds that there are no benchmarks indicating how this information is to be interpreted. They observed that on their own, the financial statistics do not indicate to elected officials and the public whether the government's finances are getting stronger or weaker, or provide answers to the following questions: What should the ideal debt-to-GDP ratio be? What should BC's own-source revenue be in relation to government transfers?

In response, the Auditor General explained that his role is to provide the Committee with factual information and not to venture into making policy judgments. In his view, it would be inappropriate to comment in his reports on what the correct debt levels are, what resource allocations should be moved to health versus education, whether the government should debt finance programs or ensure that all program costs are paid for by revenues, or whether a surplus/deficit in a particular year is a good or bad outcome.

The witness's explanation prompted one committee member to note that a similar report on the state of the government's finances as at March 31, 2001 did interpret the financial data, by concluding that "BC's economy has been the second most able to support its government's past revenue-raising and spending practices." (News Release, February 14, 2002) From the member's perspective, this conclusion implied that the province was in good shape for carrying on with its revenue and spending practices when the trends related to the province's ability to pay might well have indicated something quite different. In response, the Auditor General stated that his conclusion was based on the province's "very strong and sound credit rating" and its net liabilities-to-GDP ratio, compared to other jurisdictions. He acknowledged that the delay in releasing the 2000/01 report on the province's finances had affected the relevance of the data.

Another committee member voiced a different concern about the detailed financial information framework He asked about the distinction made in Exhibit 2 between natural resources revenue and BC Hydro revenue, as this enterprise generates its income from natural resources. In response, the Auditor General explained that natural resources revenue refers to oil and natural gas royalties and forestry stumpage fees, and that the revenue from the activities of BC Hydro warrants a separate entry. After hearing this distinction, the member asked why Exhibit 5, demonstrating the rate of

change in revenue by main source, included the sales revenue of downstream hydroelectric benefits under the natural resources category. The Committee was informed that these downstream benefits are included in the general program revenue of government rather than in BC Hydro revenue and so no double counting occurs.

Financial indicators

Some members pointed out the conceptual problems for the accounting profession arising from the use of the CICA indicators of government financial condition. They questioned whether business concepts could encompass the complex enterprise of government, since the CICA indicators did not include government assets like Crown lands or government liabilities, such as the publicly funded health and education systems, in the balance sheet.

In response, the Auditor General informed the Committee that the CICA and credit rating agencies use different sources of economic and financial information to measure the state of the province's finances. He also reported that these agencies focus on the net liability item, or what they call the net debt of government, which is calculated as the difference between a government's total liabilities and its financial assets.

The Auditor General also stated that the question of what to do with government infrastructure assets — like highways, health and education —and how to report on them has been a topic of ongoing debate among the accounting community. As the infrastructure assets of a government

do not qualify as revenue-generating assets as defined by private sector accounting, this community has developed another test for these kinds of assets: their potential to generate services to the broader public. However, there is little consensus on how to reflect the value of infrastructure assets like Crown lands, forests and minerals in the financial reports of government, other than including them in the financial statements in situations where these assets are acquired through a transaction.

In response, one committee member observed that if the calculation of the value of publicly owned land were to be included in future financial statements, this information could harm the province's international trade. Including land as a publicly owned asset could revive the WTO debate on what constitutes a subsidy. Therefore it could pave the way to having outsiders determine that British Columbia hasn't gone far enough in determining the value of a public good that has to be accounted for in the determination of assets and liabilities.

On a related question, the Auditor General was asked whether the accounting profession distinguishes between roads that don't have revenue-generating capacity and toll roads when defining infrastructure assets of government. He informed the Committee that the assets of government organizations that generate sufficient revenues to cover their costs qualify as revenue-generating assets for financial reporting purposes. An asset that is not generating sufficient revenue to cover its costs is classified as a general program infrastructure asset. In response, one member identified the need to develop some consistent criteria for deciding when an organization no longer qualifies as a revenue-generating organization.

Sustainability Indicators

Other committee members had concerns about the two sustainability indicators used in the report that compare the size of the government's net liabilities, and the annual change in net liabilities, to the size of the provincial economy, as measured by its gross domestic product. They pointed out that including non-financial assets like major enterprises in the net liabilities calculation could create some significant fluctuations over the years, depending on when the decisions are made to purchase and write down the assets.

On a related point, committee members also noted that government general infrastructure assets are not included in the calculation of net liabilities, whereas revenue-generating assets of enterprises are included. Therefore spending a trillion-dollars on buildings roads would significantly increase the province's net liabilities to GDP ratio. In response, the Auditor General confirmed that the net liabilities measure excludes infrastructure assets and focuses on the government's total liabilities minus its revenue-generating assets — whether these assets are in enterprises or in general programs like loans and cash balances.

GAAP Implementation Project

The Committee inquired about the issues that remain to be resolved before the deadline for completing the GAAP implementation project. In response, the Comptroller General gave a brief overview of the outstanding policy, procedural and process issues. He stated that an interministry committee has developed a workplan to incorporate full GAAP into the public accounts and the budget by 2004/05 and to standardize the accounting policies of schools and the other institutions that will become part of the government reporting entity. Other key challenges are to make sure that the government and the Office of the Auditor General use the same solid criteria to determine whether an organization will be in the government reporting entity, and to provide consistent accounting guidance for the different components of the SUCH sector. There are also issues to be resolved concerning service plans, prepaid capital advances and interim reporting on the SUCH sector.

In a follow-up question, one committee member asked whether individual entities in the SUCH sector — for example, universities and school boards — have a say in the implementation process, or if the project is a unilateral exercise by virtue of the fact that the government has passed legislation. She was informed that the government has a consultation plan, involving the stakeholders of the four ministries that have responsibilities for the SUCH sector.

RECOMMENDATIONS

The Committee endorses recommendations Nos. 1 and 2 in the Auditor General's 4th Report for 2002/03, *Monitoring the Government's Finances*, and recommends the same to the Legislative Assembly.

With regard to the Auditor General's third recommendation, the Committee recommends that the government include the indicators of financial position identified by the Canadian Institute of Chartered Accountants and other important financial and economic measures to inform the legislators and citizens of British Columbia of the state of government finances.

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